MOODY'S
INVESTORS SERVICE

CREDIT OPINION
9 November 2016

New Issue

Rate this Research

Contacts

Kevin G. Rose 212-553-0389
VP-Senior Analyst
kevin.rose@moodys.com

Kurt Krummenacker 212-553-7207
Senior Vice President
kurt.krummenacker@moodys.com

Dan Aschenbach 212-553-0880
Senior Vice President
dan.aschenbach@moodys.com

A.J. Sabatelle 212-553-4136
Associate Managing Director
angelo.sabatelle@moodys.com

Austin (City of) TX Electric Enterprise

New Issue - Moody's upgrades Austin Energy to Aa3 from A1; assigns Aa3 to new $92.7M refunding bonds; outlook stable

Summary Rating Rationale

Moody's Investors Service today upgraded the ratings for the City of Austin, Texas, (Austin (City of) TX Electric Enterprise or Austin Energy) outstanding electric utility system bonds to Aa3 from A1. Austin Energy estimates having $1.17 billion outstanding at September 30, 2016. Concurrently, Moody's assigned a Aa3 rating to Austin Energy's planned issuance of approximately $92.7 million of electric utility system revenue refunding bonds, series 2016. The planned issuance is expected to price November 29, 2016. The rating outlook is stable.

The rating actions reflect our view that Austin Energy can sustain debt service coverage moderately above 2x and consistent with recent periods, while continuing to expand its reliance on renewable resources to meet customers' demands for power and maintain competitive rates compared to its peers in the Texas market. The rating actions also reflect the resilience of Austin Energy's strong service area, full autonomy in setting its base electric rates, and the essential nature of electricity service provided. These characteristics combine to support a sound cost recovery framework. The utility's close relationship to the City of Austin, whose general obligation bonds are rated Aaa, including access to the City's investment pool, is also a credit positive factor. The 7% ($71 million) electric base rate increase approved effective in October 2012 and other periodic rate adjustment mechanisms approved by the City Council as part of that rate decision were a significant impetus for stronger financial metrics achieved for fiscal years (FY) ended September 30, 2013-2015. Austin Energy's estimates from internal financial reports which are still subject to final audit for fiscal year 2016 show signs of continued strength for key financial metrics. We also note approval in August 2016 of a 6.65% ($42.5 million) base rate reduction effective January 1, 2017 is balanced by expected lower debt service requirements and other cost efficiencies so that budgeted net revenues can support the prospective financial performance outlined above. That said, Austin Energy has a well-diversified power supply portfolio, albeit with an increasing reliance on renewable energy sources and efficiency measures, a strategy that we believe could prove challenging over time.

Credit Strengths

» Strong and growing service area reflected in the Aaa rating for the City of Austin's general obligation bonds

» Notable improvement in debt service coverage and liquidity

» Municipally owned utility which benefits from unregulated rate setting

- Diversified generation supply portfolio, albeit with an increasing focus on renewables
- Flexibility in the balance sheet owing to the sound debt ratio and conservative objectives not to exceed 50%

Credit Challenges

- Maintaining competitiveness and sound financial profile while executing a power supply strategy which focuses on renewable energy, efficiency programs and reducing carbon emissions
- Deregulated Texas retail electricity market could create competitive pressures
- Commodity price risk tied to the natural gas component of the fuel mix
- Political involvement in power resource decisions and rate setting
- Historically higher than public power sector norm for transfers to the City of Austin's general fund

Rating Outlook

The stable rating outlook reflects Austin Energy's effective implementation of its operating and financial strategies, allowing the utility to achieve its targeted goals and support its strong credit quality going forward. In particular, the stable outlook incorporates notable improvement in adjusted debt service coverage and liquidity metrics following an electric base rate increase effective October 2012, which we believe can be sustained even as a rate reduction is implemented effective January 1, 2017.

Factors that Could Lead to an Upgrade

- Owing to the upgrade of ratings, we do not anticipate an upgrade in the near term
- Over the intermediate to long term, the rating could be upgraded if prospective financial performance exceeds our current expectations, including achieving adjusted debt service coverage that exceeds 2.25x on a sustained basis, while maintaining adjusted days liquidity in excess of 250 days (including the benefit of unused capacity under the commercial paper programs), on a sustained basis
- Successful implementation of the generation supply strategy while avoiding any significant increase in the currently sound debt ratio or weakening of debt service coverage metrics and its competitive position would also be viewed positively from a rating perspective

Factors that Could Lead to a Downgrade

- Failure to implement rate increases, if necessary, in a timely manner would be viewed as credit negative
- Adjusted debt service coverage below 1.8 times or adjusted days liquidity on hand of less than 150 days for an extended period could lead to a downgrade
- Also, negative rating action could follow any decision to opt into retail competition in Texas and/or more aggressive demands for transfers to the city's general fund

Key Indicators

Exhibit 1

AUSTIN (CITY OF) TX ELECTRIC ENTERPRISE

	2011	2012	2013	2014	2015
Total Sales (mWh)	12,723,303	12,716,148	12,270,734	12,599,686	12,690,278
Debt Outstanding ($'000)	1,409,708	1,411,884	1,399,079	1,419,528	1,349,251
Debt Ratio (%)	44.7	45.2	45.1	44.8	40.4
Total Days Cash on Hand (days)	94	77	97	100	158
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	190	148	177	129	238
Adjusted Debt Service Coverage (x) (Post Transfers/PILOTs - All Debt)	1.39	1.12	1.62	1.62	2.56

Source: Moody's Investors Service

Recent Developments

Recent Developments are incorporated into the Detailed Rating Considerations.

Detailed Rating Considerations

Revenue Generating Base

ECONOMICALLY VIBRANT SERVICE TERRITORY, SOLID MARKET POSITION AND COMPETITIVE RATES BODE WELL FOR CREDIT QUALITY

The City of Austin is characterized by a strong economy. The state government, technology firms and higher education form a solid foundation, and the high tech sector has been contributing significantly to economic growth and employment. According to the Moody's Economy.com report of July 2016, the Austin economy continues to experience strong growth. The recent unemployment data indicates a 3.4% unemployment rate, which is a further improvement over the past several years and this compares extremely well to the state and national levels.

Under the deregulated market that exists in Texas, most electricity customers can choose their power supplier, but municipal electric utilities and electric cooperatives are not required to open their service area to competition. Owing to its competitive rates, Austin Energy has not, to date, opted into retail competition.

Austin Energy has a reasonably competitive cost structure, which compares well with many municipally owned utilities in the state and nation. For example, the latest EIA data for 2015, which does not incorporate the latest base rate reduction, shows Austin Energy's residential rate to be about 2.5% below the average of other electricity companies serving residential customers in Texas. However, the competitive comparison is less favorable on a system wide basis as the 2015 EIA data shows Austin Energy's average system rates to be about equal to the Texas state average. As described in more detail below, Austin Energy's base rates will decline in 2017, which will have a favorable impact on its competitive position.

The cost structure of Austin Energy is influenced by its diverse fuel mix and primarily tax-exempt capital structure. Austin Energy's retail rates are set by the City Council and fuel and purchased power costs can be passed through on a monthly basis through an administrative annually adjusted Power Supply Adjustment (PSA) Charge.

HISTORICALLY DIVERSE AND DEPENDABLE SUPPLY PORTFOLIO; INCREASING ROLE FOR RENEWABLES AND CONSERVATION EFFORTS

Although Austin Energy's fuel supply mix has evolved over the past several years to add more renewable energy sources to the mix, it currently remains reasonably well diversified, with coal providing 24.2% of the total supply in FY 2016, natural gas comprising 17.3%, nuclear providing 25.8%, renewable energy providing 31.1%, and purchased power providing 1.6% to round out the total.

Austin Energy currently owns about 2,471 MWs of generation capacity spread among coal, natural gas and nuclear resources. Included among the owned resources is a 570 MW interest in the Fayette Power Project, a two unit coal-fired plant, co-owned with the Lower Colorado River Authority. The Fayette coal-fired plant has a history of strong performance, reflecting well on how the plant is managed. Austin Energy's Decker Power Plant includes units 1 and 2, which are large steam boiler units aggregating 726 MWs of capacity available since 1970 and 1977, respectively. The Decker station also includes four gas turbines totaling 200 MWs of capacity, which have been available since 1988. Austin Energy also has full ownership of its Sand Hill Energy Center, which includes 180 MWs of gas turbines installed in 2001 and another 90 MWs of gas turbines added in 2010, as well as a 300 MW combined cycle facility installed in 2004. Austin Energy's owned generation capacity is rounded out by a 16% (approximately 432 MWs) share in the South Texas nuclear project (STP). The nuclear project is comprised of two units, with licenses expiring in 2027 and 2028, respectively. Vessel head replacement was completed in 2009 and 2010, which served the STP project well as a proactive maintenance step. A request for license extension of both units is pending completion of an NRC review process, expected to conclude by the second quarter of 2017. Austin Energy declined an invitation from one of the project partners to participate in future expansion at the STP site.

To supplement its owned generation resources, Austin Energy now has almost 1,500 MWs of renewable capacity resources in its portfolio. These resources are mostly comprised of purchased power agreements (PPAs) with wind projects; however, the utility also has a few smaller solar, biomass and landfill methane projects in the mix. More wind and solar PPAs are expected beyond 2016.

Austin Energy's current strategic resource plan continues to evolve as part of the Austin Climate Protection Plan (ACPP) which was initially introduced in February 2007 and a Resource, Generation and Climate Protection (RGCP) Plan was adopted in April 2010 to guide the strategy along with affordability metrics later added in 2011. The RGCP Plan is reassessed every two years, and the latest plan completed in 2014 (the 2014 plan) is incorporated into Austin Energy's latest financial forecast. Among the key attributes of the 2014 plan include goals for renewable energy to be 55% of total resources (including about 1,500 MWs of wind power and a solar component of about 950 MWs), 900 MW of combined conservation through energy efficiency and demand response by 2025, and the setting of a CO2 reduction goal of 20% below 2005 levels by 2020. These steps must also keep within Austin Energy's affordability goals, including a limit of 2% for annual rate increases, subject to keeping Austin Energy's rates in the lower half relative to other Texas-based utilities. To achieve its CO2 reduction goal under the 2014 plan, we understand that Austin Energy would scale back usage of the Fayette plant and would consider retiring Austin Energy's share of the asset beginning in 2023, while also potentially adding as much as 500 MW of gas fired capacity when market conditions indicate.

Moody's believes that Austin Energy may still be challenged to meet all of the anticipated objectives of the 2014 Plan as described above, while maintaining affordability goals and system reliability, which are primary objectives of several of Austin Energy's largest industrial and commercial customers. For these reasons, since December 2014 we have been scoring the subfactor in the methodology assessment relating to managing generating resources, which encompasses system reliability, in the "A" range, whereas historically it was scored in the "Aa" range.

Operational and Financial Performance

CAPITAL IMPROVEMENT PLAN AS CURRENTLY CONTEMPLATED SHOULD ALLOW AUSTIN ENERGY TO KEEP IN LINE WITH DEBT RATIO AND DEBT SERVICE COVERAGE RATIO OBJECTIVES

At the end of FY 2015, Austin Energy's debt ratio stood at about 40.4%, continuing the improving trend noted since fiscal year 2012. Based on Austin Energy's estimates for unaudited FY 2016 financials, we anticipate the debt ratio will be modestly above the FY 2015 level upon completion of the audit and the future directional trend of the debt ratio could creep up further depending on the final decisions with regard to the generation resource and capital allocation strategies. That said, we currently expect any increase to be guided by Austin Energy's target objective of keeping approximately a 50/50 split between debt and equity.

Austin Energy's capital improvement plan (CIP) for fiscal years 2017-2021 is currently sized at about $894 million and is based on assumptions guided by the 2014 plan, but spending is subject to change as the resource strategy unfolds and is periodically subject to revision. The two major components of the latest CIP are for electric service delivery and power production. Specifically, about $601 million is devoted to electric service delivery, including distribution, distribution substation, and transmission projects, while about $173 million would be directed towards power production (e.g., primarily for maintenance and ensuring reliability of existing facilities). The balance of the five year CIP, focuses on customer service billing and metering, facilities, technology and support services. Austin

Energy's debt ratio has been maintained on average at 43.4% for fiscal years 2013-2015 and under any future funding scenarios for its CIP, we would expect that management will remain committed to its objective of keeping the debt/equity mix no worse than 50/50.

BASE ELECTRIC RATE INCREASE IN 2012 HAS BEEN SUPPORTING STRONGER KEY METRICS IN RECENT PERIODS; KEY METRICS APPEAR SUSTAINABLE AT RECENT LEVELS NOTWITHSTANDING BASE RATE REDUCTION TO TAKE EFFECT JANUARY 2017

Austin Energy's financial performance for fiscal years ended September 30, 2013-2015 have benefitted from the system average base electric rate increase of about $71 million (7%) which became effective October 1, 2012. In particular, the utility's adjusted debt service coverage ratio (including general funds transfers as an O&M expense) was about 1.62x for fiscal years 2013 and 2014 compared to just 1.12x for fiscal year 2012. With a significant reduction in debt service requirements in FY 2015, the adjusted debt service coverage ratio improved further to 2.56x and based on Austin Energy’s forward looking statements still subject to final audit for FY September 30, 2016, we anticipate the adjusted debt service coverage ratio remaining moderately above 2.0x, consistent with Austin Energy’s financial objectives.

On average, Austin Energy’s liquidity reflects a proactive approach to ensure keeping a minimum of 150 days cash on hand. In addition, we calculate adjusted days of liquidity on hand (including unused capacity under commercial paper (CP) programs), which further strengthens Austin Energy’s liquidity profile. We calculate that for FY 2013-2015, Austin Energy’s adjusted days liquidity averaged just over 180 days, with some variability due to CP balances outstanding during those periods. With the benefit of the rate increase in 2012 and related initiatives (including debt refunding and resulting lowering of debt service requirements), we anticipate that Austin Energy’s adjusted debt service coverage ratio can be sustained moderately in excess of 2.0x even with the impending base rate reduction in January 2017 as described below, while also sustaining adjusted days liquidity, with the continued benefit of unused capacity under the CP programs, on average near the FY 2015 level in excess of 230 days. The forecast assumptions are based largely on the 2014 Plan as discussed above in this report.

During August 2016, the City Council approved a system average 6.65% (about $42.5 million) base rate reduction for Austin Energy, effective January 1, 2017. As part of this decision, rate design changes were implemented to address seasonal rate differentials, improve cash flow for Austin Energy and provide more predictability and stability for customers’ rates. In doing so, the City Council also reaffirmed policies established in October 2012 when base rates were last increased, whereby Austin Energy’s base rate needs will be assessed every five years, at a minimum. Other key rate strategies that were reaffirmed include a goal of no more than 2% for annual rate increases, subject to keeping Austin Energy's rates in the lower half relative to other Texas-based utilities. Several line item annual adjustments to bills continue to include a power supply adjustment, a regulatory charge, a customer assistance charge, a street and traffic lighting charge and an energy efficiency charge. We also note less potential for customer unrest since 22 parties representing major customers and classes agreed as part of the August 2016 rate decision not to seek any statutory changes related to Austin Energy before the Texas State Legislature until the earlier of either the date of the next Austin Energy rate review or December 31, 2020. We view such agreement as a credit positive.

SOUND FINANCIAL POLICIES IN PLACE

Austin Energy’s financial policies include a variety of practices to maintain financial integrity while allowing for flexibility. For example, Austin Energy indicates that its net revenues shall be used for general fund transfers (GFT), capital investments, repair and replacement of assets, debt management, competitive strategies and other Austin Energy requirements. After these obligations are met, remaining net revenues are by policy deposited in the following order into the following reserve funds until each is at the minimum funding level: working capital, contingency reserve, power supply stabilization reserve and capital reserve.

The historic general funds transfer (GFT) policy resulted in transfers equal to about 9% of total revenue, well above the peer group average nearer to 6 or 7%, which we view as a credit negative. However, beginning in FY 2013, Austin Energy's GFT was adjusted to a level equal to 12% of non-fuel revenue with a $105 million floor. Under this formula approach, Austin Energy's GFT payments have been more predictable, remaining at the floor level for 2013-2016 (e.g., even though the GFT is a higher percentage, it is calculated from a smaller component of the total revenue amount). Any material increase in the actual amount of the transfer above the floor would be credit negative since it could put pressure on the utility's finances and post-transfer debt service coverage ratio.

The minimum funding level for the Austin Energy working capital is 60 days of budgeted operations and maintenance expense, less power supply costs, plus the amount of additional funds required to bring the sum of all Austin Energy reserves to no less than 150 days of O&M expense. As of September 30, 2016, Austin Energy indicates that its operating cash was $348 million and that its days cash on hand was 197 days. The contingency reserve has a minimum required funding level of 60 days of budgeted O&M expenses, less power supply costs, while the level for the power supply stabilization reserve is equivalent to 90 days of net power supply costs and for the capital reserve it is a minimum cash equivalent of 50% of the previous year's electric utility depreciation expense. As of September 30, 2016, Austin Energy has indicated its 2016-2017 approved budget amounts for the contingency reserve, the capital reserve and the power supply stabilization reserve were $96 million, $12 million, and $89 million, respectively.

The utility also has an energy risk management program to mitigate the financial and market risk associated with the purchase of natural gas and energy. Austin Energy utilizes a portfolio of fuel (coal, nuclear and natural gas), pipeline contracts and a natural gas price hedging plan.

LIQUIDITY

Liquidity has been benefitting in part due to rate increases approved effective October 1, 2012. As such, adjusted days liquidity on hand (including the benefit of unused capacity under commercial paper programs) averaged about 181 days over FY 2013-2015. We expect that Austin Energy will continue to carefully manage its liquidity level and we also note that the utility can, if need arises, access the City of Austin's investment pool which is comprised of funds contributed by all of the City's various Systems. We understand that these investments are in highly rated and very liquid funds. We also understand that Austin Energy's share of the City's investment pool is in the neighborhood of $345 million.

Debt and Other Liabilities

As of the unaudited September 30, 2016 financial reports provided by Austin Energy and still subject to final audit, the utility had approximately $1.2 billion of Electric Utility System Revenue Bonds outstanding, $75 million of tax-exempt CP outstanding, and $14 million of taxable CP outstanding. The CP programs are backstopped by direct-pay letters of credit. In addition, there were Combined Utility Systems obligations outstanding comprised of approximately $27 million prior first lien bonds and $119 million prior subordinate lien bonds, which are separately rated at Aa1 and Aa2, respectively, and the outlook for these securities is stable. (See separate report on www.moodys.com of April 29, 2016 related to City of Austin, (TX) Water and Wastewater System for further details related to the prior lien bonds).

DEBT STRUCTURE

Austin Energy's debt ratio during fiscal years 2013-2015 averaged about 43.4% and the long-term debt is represented by fixed rate revenue bonds. The CP noted above is used primarily to initially fund capital projects until balances grow to a level that creates economic opportunities to fund out the CP with long-term revenue bonds so that the tenor of the debt then better matches the long-lived nature of Austin Energy's assets. We do not anticipate any material shift from this strategy, however, Austin Energy's debt ratio could creep up as it re-evaluates its capital mix, while not expecting to exceed a 50% debt ratio, a utility objective.

DEBT-RELATED DERIVATIVES

None

PENSIONS AND OPEB

Austin Energy's employees participate in the City of Austin Employees' Retirement and Pension Fund, which is a contributory, defined benefit plan with a funded ratio of 70.9% as of December 31, 2014. The financial impact of unfunded pension and OPEB obligations of Austin Energy are not currently a major factor in our assessment of its credit profile.

Management and Governance

The City of Austin has a Council-Manager form of government. Under this form of government, the Mayor and ten Council members are all elected at large for three-year staggered terms. The City Council has the original jurisdiction over Austin Energy's retail electric rates, while the Public Utility Commission of Texas has exclusive jurisdiction over rates and terms and conditions for provision of transmission services by the City. The City Council appoints the City Manager and the City's budget is proposed by the City Manager. The City's budget is then subject to approval by the City Council after public discussion. Austin Energy's management team is led by its General Manager (GM), Jacqueline "Jackie" Sargent, who has over 30 years of utility-related experience, including serving as

Austin Energy's Senior Vice President of Power Supply from 2010-2012, before departing to become GM and CEO of Platte River Power Authority. Jackie Sargent returned to Austin Energy in August 2016 to fill the vacant GM position resulting when Larry Weiss resigned. Three deputy General Managers serve as Chief Operating Officer and Chief Customer and Compliance Officer, and Chief Financial Officer, respectively, with 23 combined years of service at Austin Energy. The Chief Financial Officer, Mark Dombroski, is also in charge of Corporate Services. Although Mr. Dombroski is relatively new to Austin Energy, having joined the utility in 2014, he has 24 years of municipal utility experience. In addition to these members of the management team, Austin Energy also has seven other Vice Presidents with wide ranging industry related experience at Austin Energy and prior professional positions with former employers.

Legal Security

Legal security is provided by net revenues of the electric system. The electric utility system revenue bonds are payable after payment of debt service on prior first lien obligations of Austin's combined utility system which includes water, wastewater and electric services. Combined utility systems obligations outstanding of $27 million prior first lien bonds and $119 million prior subordinate lien bonds are separately rated at Aa1 and Aa2, respectively, and the outlook for these securities is stable. (See separate report on www.moodys.com of April 29, 2016 related to City of Austin, (TX) Water and Wastewater System for further details related to the prior lien bonds). The liens on the prior first lien and prior subordinate lien obligations are both closed and all new bonds issued for electric system purposes are secured only by the net revenues of the electric system. New water and wastewater bonds are also separately secured bonds. Until the prior first lien and prior subordinate lien obligation bonds mature May 15, 2019 and May 15, 2028 respectively, the first lien bond security provisions govern, including a rate covenant of 1.25x annual debt service coverage for prior first lien and 1.10x coverage for prior subordinate lien bonds. The master ordinance includes a springing debt service reserve requirement, which is a credit negative in our view and reflected in our notching under the rating methodology grid. Under the bond ordinance, the electric system has no debt service reserve requirement when debt service coverage exceeds 1.50x. A springing reserve is required to be funded in 10% increments (up to 50% of maximum annual debt service) for every 10 basis points drop below 1.50x debt service coverage. Based on the current debt service coverage level for parity electric utility system obligations as calculated under the bond ordinance, Austin Energy is not required to fund a debt service reserve for electric utility system revenue bonds, and based upon our understanding of their financial plans, we do not currently anticipate a need for such funding.

Use of Proceeds

A portion of the series 2016 bonds will be used to advance refund certain maturities of Austin Energy's outstanding 2008A bonds for net present value savings. A portion of the proceeds will also be used to pay issuance costs.

Obligor Profile

Austin Energy is a city-owned electric utility that provides electric generation and distribution services to over 460,000 customers of the City of Austin and surrounding areas in Travis (Aaa; stable) and Williamson (Aa1; stable) counties. Although the utility's service territory is roughly geographically split 50/50 between in city and out of city, the large majority of its sales are in-city.

Issuer Contact:

Mark Dombroski, CFO; 512-322-6148

Other Considerations: Mapping to the Grid

Moody's evaluates Austin Energy under the U.S. Public Power Electric Utilities with Generation Ownership Exposure Rating Methodology, and Austin Energy's grid indicated rating under the below depicted grid is A1, which is one notch below the Aa3 rating of its electric utility system revenue bonds. The one-notch difference reflects our view that Austin Energy's debt service coverage ratio will continue to be sustained in excess of 2x for the foreseeable future owing to lower annual debt service obligations and that it can effectively implement its resource strategy while keeping rates competitive and in line with its affordability objectives.

The grid is a reference tool that can be used to approximate credit profiles in the U.S. Public Power Electric Utility Industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see U.S. Public Power Electric Utilities with Generation Ownership Exposure Rating Methodology for more information about the limitations inherent to grids.

Exhibit 2

US Public Power Electric Utilities with Generation Ownership Exposure

Factor	Subfactor/Description	Weight	Score	Metric
1. Cost Recovery Framework Within Service Territory	Monopoly with unregulated rate setting. Service area characteristics-GO rating. Customer base stability	25%	Aaa	
2. Wllingness and Ability to Recover Costs with Sound Financial Metrics	Rate Setting Record. Timeliness of recovery. Political Risk. Local Government Supportiveness. General fund transfer policy	25%	A	
3. Generation and Power Procurement Risk Exposure	Diversity of Supply. Reliability and cost of supply & distribution	10%	A	
4. Competitiveness	Rate Competitiveness (compared to state average)	10%	A	
5. Financial Strength	a) Adjusted days liquidity on hand (3-year avg) (days)	10%	Aa	181
	b) Debt ratio (3-year avg) (%)	10%	Aa	43%
	c) Adjusted Debt Service Coverage or Fixed Obligation Charge Coverage (3-year avg) (x)	10%	A	1.93x
Grid Indicated Rating Before Notching			**Aa3**	
Additional Factors			Notch	
6. Operational Considerations	Construction risk, whether the utility is a vital service provider		0	
7. Debt Structure and Reserves	Debt service reserves, special borrowing arrangements and debt structure		-0.5	
8. Revenue Stability and Diversity	Exposure to wholesale power markers, customer concentration, diversity from combined utility operations		0	
Grid Indicated Rating After Notching:			**A1**	

Source: Moody's Investores Service

Methodology

The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in March 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Austin (City of) TX Electric Enterprise

Issue	Rating
Electric Utility System Revenue Refunding Bonds, Series 2016	Aa3
Rating Type	Underlying LT
Sale Amount	$92,700,000
Expected Sale Date	11/29/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

REPORT NUMBER 1047998

MOODY'S INVESTORS SERVICE